

**Page Denied**

Next 1 Page(s) In Document Denied

State Dept. review completed

DOE review completed.

**Secret**



# Weekly Summary

**Secret**

11 January 1974  
No. 0002/74

Copy

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

### WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

25X1

## CONTENTS (January 11, 1974)



- 1 The Middle East
- 5 International Money

### EUROPE

- 6 USSR: Solzhenitsyn; [redacted] 25X1
- 7 UK: Impasse Continues [redacted] 25X6
- 9 Spain: The Arias Government
- 10 Europe: Security Talks; Energy

### EAST ASIA PACIFIC

- 12 China: The Economy; Aid to Africa
- 14 Indonesia: Student Xenophobia
- 14 Japan: Oil and the Military
- 15 Korea: Hard Line in the South
- 16 Cambodia: More Pressure on Phnom Penh
- 16 Laos: Much Ado About Nothing

### MIDDLE EAST AFRICA

- 17 Zaire: Decolonizing the Economy
- 17 Afghanistan-USSR: Arms from Moscow

### WESTERN HEMISPHERE

- 18 Canada: Selling Wheat
- 19 Argentina: Defiant University
- 19 Arms Race in the Andes

25X1

SECRET

# THE MIDDLE EAST

## Disengagement Talks

1, 2 [Egyptian and Israeli negotiators concluded their sixth session at Geneva on January 9 without reaching agreement—indeed, without yet exploring the details of territorial dispositions and troop strengths. There appears to be some prospect, however, that they will settle down to specifics when they meet again on January 15]

1, 2 [The Israelis seem ready to withdraw from the west bank of the Suez Canal to a point some distance east on the opposite bank; 18 miles is the most frequently mentioned distance. So far, however, they have only offered this in terms of a general principle. Tel Aviv will not move on to definite proposals until the disengagement issue has been discussed in greater detail by the cabinet, and Secretary Kissinger has concluded his visit to Israel.]

1, 2 [In return for an Israeli pullback, Tel Aviv is demanding that the Egyptians agree to reduce their forces on the east bank.] While the Egyptians may be willing to accept some limitations on their forces, there have been no indications that they are ready to accept the kind of sizable reduction that would satisfy the Israelis]

2, 3 [The Cairo press has treated the disengagement talks circumspectly, giving little indication of the substance of the discussions and, beyond the usual criticism of Israeli procrastination, little

hint that the talks have thus far been inconclusive. In order not to give the Arabs the impression that Egypt is negotiating a unilateral settlement, government officials and the media have been careful to characterize the talks as preliminary military discussions unrelated to the broader political questions of a settlement that will ultimately affect all Arabs]

2, 3 [Ironically, the very prospect that a disengagement agreement may be reached has raised new fears in Cairo. Now apprehensive that disengagement could freeze the situation along new cease-fire lines, the Egyptian press has begun to emphasize the necessity for a link between disengagement and continued progress toward a total Israeli withdrawal.]

2 [Israeli press commentary on the Geneva talks has taken its cue from the government radio, which this week characterized the talks as "mostly a sideshow" with the real drama being played out in Washington, Moscow, Cairo, and Jerusalem.] The press, however, has reflected some resentment over an alleged US ability to influence the Israeli negotiating position with the Arabs.] [One paper saw Defense Minister Dayan's trip to Washington last weekend as a case of the government apparently rushing to the US for the latest instructions even before Washington had begun to issue them. Nevertheless, the most recent survey by one of the more reliable Israeli public opinion polls shows that more than 82 percent of those

SECRET

SECRET



Israel and Egypt meet with UNEF chief

questioned were prepared to support some territorial concessions in return for a peace settlement, with only 14 percent opposed.]

#### Cairo and Moscow Huddle

4 [Egyptian Foreign Minister Fahmi's mission to Moscow this weekend is probably aimed at smoothing over strains in relations and reaching a meeting of minds with Kremlin leaders on the degree of Soviet support for Cairo's negotiating position.]

5 [Egypt has never been really comfortable with the relationship and has for some time been

pursuing policies, domestic and foreign, designed to keep Soviet influence in Egyptian affairs to a minimum. At this stage of the negotiations, however, Cairo views its ties with the Soviets as critical. The USSR is currently Egypt's only major source of arms and, should the Geneva talks break down and the war resume, Cairo will look again to Moscow to resupply its armed forces.]

5 [In political terms, Soviet support is less important, since Cairo is depending primarily on the US to produce progress toward a settlement. Nevertheless, in Egypt's view, Moscow can serve as a useful source of leverage if negotiations do not proceed favorably.]

SECRET

SECRET

5 Fahmi's primary aim will thus probably be to ensure a continued commitment of Soviet backing. At the same time, he will try to make sure that this is accomplished largely on Cairo's terms—without restricting Egypt's independence.]

5 [From Moscow's standpoint, the visit, although apparently initiated by the Egyptians, serves as a useful counterpoint to Dayan's visit to Washington. The Soviets probably also welcome the opportunity to discuss more closely Egypt's specific negotiating positions.]

#### Egyptian Cabinet To Be Revamped

6 [President Sadat has been involved in an intensive round of consultations with cabinet ministers and domestic political figures. He is apparently preparing a cabinet reorganization that would enable the government to deal more effectively with postwar reconstruction if a disengagement agreement is concluded. Sadat is scheduled to address a joint session of the legislature and the Arab Socialist Union on January 18, and he could use the occasion to announce both his policy and his new ministerial line-up.]

7 [As plans appear to be shaping up, Sadat would relinquish the post of prime minister, which he assumed in March 1973 to consolidate his control in preparation for the war. Minister of Finance and Economy Hijazi is the leading candidate to take over the post. The Cairo press, which has talked openly in recent days of Sadat's plans for "making comprehensive development the aim of the next stage," has all but explicitly named Hijazi as the prime ministerial choice.]

6 [Hijazi has the administrative and the economic experience for the job. Last summer, he was behind the revitalization of a liberalized economic policy that Cairo had originally conceived several years ago to attract greater private foreign investment and generally to ease Egypt away from its socialist orientation. The October war stopped implementation of the policy, and its future now will depend on the conclusion of a disengagement agreement. In fact, real progress toward economic liberalization and reconstruction depends in large measure on an end to Egypt-

tian saber-rattling—a tactic Cairo is not prepared entirely to forgo in the absence of a final settlement.]

6 [Nevertheless, the cease-fire has added new pressures for economic development. Popular discontent over economic ills has long been a problem for the Egyptian leadership. The war was a distraction, but the prospect of protracted negotiations promises to bring dissatisfaction to the surface again unless the economic situation is improved.]

6 [Moreover, Sadat has long felt self-conscious about Egypt's technological inferiority to Israel and, having restored a measure of military respectability, he probably feels that Egypt should now demonstrate a capability to achieve a semblance of equality in other fields. A disengagement would, furthermore, provide Egypt with an opportunity to proceed with plans to re-open the Suez Canal and rebuild the canal towns.]



Minister of Finance and Economy Hijazi  
Leading candidate for prime minister

SECRET

SECRET



Israeli soldier votes in Egypt

### Israeli Election Results

9 [The final results of the parliamentary election on December 31, announced this week, showed a moderate drop in voter support for Mrs. Meir's Labor Alignment from four years ago. The Alignment received approximately 6 percent fewer votes than in the 1969 Knesset election, picking up 40 percent of the 1.6 million ballots cast and 51 parliamentary seats. This was still sufficient, however, to enable the Alignment to remain the strongest party in the Knesset and to dominate any new coalition government. The rightist opposition Likud, which campaigned against any territorial "give-away," wound up with just over 30 percent of the vote and 39 seats]

9 [The addition of the military vote did not significantly alter the preliminary results. Likud's percentage of the soldiers' ballots was slightly higher than the Alignment's, but this gave Likud only one additional seat. The National Religious Party, the Alignment's major coalition partner, lost an additional seat]

9 [The posting of the election tally formally cleared the way for President Katzir to call on Prime Minister Meir to form a new government. Her Labor Alignment announced on January 8 that it had already set up a ten-member com-

The Knesset Line-up (120 seats)		
	8th (new)	7th (old)
Old Government Coalition		
Labor Party - MAPAM Alignment	51	57
Associated Arab Parties	3	4
National Religious Party	10	12
Independent Liberal Party	<u>4</u>	<u>4</u>
	68	77
Others		
Likud	39	31
Ultra-orthodox religious parties	5	6
Communists (RAKAH)	4	3
Citizens Rights Movement	3	---
Independents/Extreme Leftists	<u>1</u>	<u>3</u>
	52	43

mittee of cabinet ministers and party leaders to conduct negotiations with possible coalition partners. [Mrs. Meir recognizes the need to move quickly in forming a new government, but will probably not be able to complete negotiations much before the end of the month.]

10 [The Alignment-led caretaker government, nevertheless, considers itself empowered to continue the Geneva disengagement talks with Egypt, although any agreement reached with Cairo will probably have to receive final approval by a new government. Although the election outcome considerably strengthened the hand of Defense Minister Dayan and his conservative supporters within the government coalition, a broad consensus exists in support of an agreement with Cairo even if it includes substantial Israeli territorial concessions.]

10 [The election results suggest that the trend toward a two-bloc party system in Israeli politics has accelerated. Likud was able to narrow the gap between it and the Alignment from 26 to 11 seats, and together they now control three fourths of the Knesset. Of the remaining 19 party lists that vied for seats, only eight managed to make it. Four years ago, ten such parties succeeded.

25X1

SECRET

SECRET

## INTERNATIONAL MONEY

(NO SOURCES)

The dollar's rapid rise in early January was abruptly halted on January 9. Bonn's announcement that it was removing all foreign-exchange controls—introduced in 1972 to slow massive dollar inflows—set off the traders' shift out of dollars. Other factors in the reversal included an apparent easing in Europe's oil supply situation—as reflected in the postponement of Germany's weekend driving ban, intervention by both the German and Japanese central banks, and international recognition that Libya had raised the posted price of its oil to only \$15.76 rather than the erroneously reported figure of \$18.86.

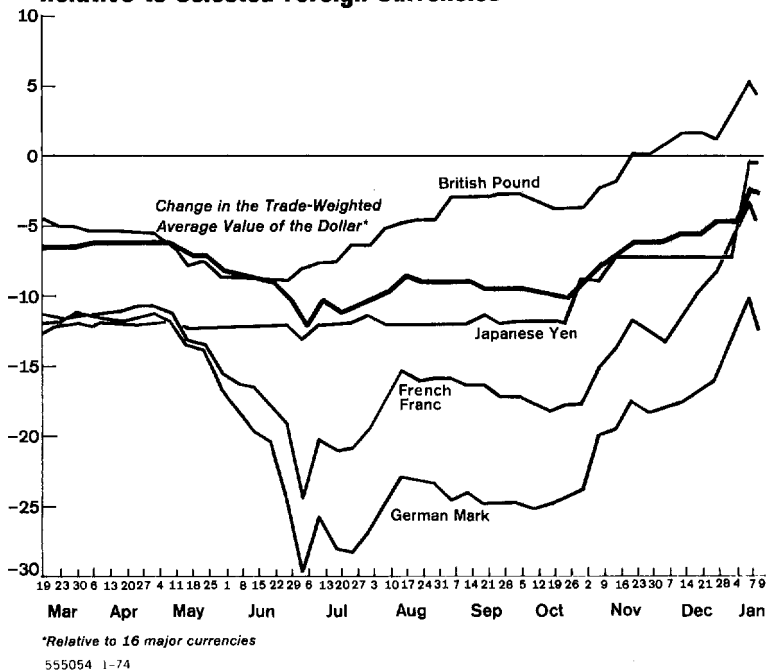
The mark remains below its previous central rate despite intervention by the Bundesbank, which has exceeded \$740 million thus far this month. Sterling, under pressure because of domestic labor problems, also began to strengthen slightly after setting record lows earlier in the month.

Despite the fluctuations of the European currencies, little internal pressure has been exerted on the European joint float since it became evident that the Dutch would continue to receive oil in the face of the Arab embargo. Although the energy crisis will have different effects on the economies of joint float members, speculation now centers on the relationship between the float currencies and non-participating currencies rather than on the internal parity structure of the joint float itself.

The Japanese central bank—after spending \$3 billion since November 13 to support the yen and to avoid the inflationary impact of a devaluation—now has allowed the yen to depreciate by 6.7 percent. Tokyo is carefully watching the support operations of European central banks.

The price of gold has also skyrocketed to new highs and was quoted at \$124 per ounce on January 9. In early 1973, gold demand was spurred by the dollar's weakness. In recent 25X1 months, the demand has been driven up by the weakness in other major currencies and the accelerating world-wide inflation.

**Percent Change Since 2 January 1973  
In the Value of the US Dollar  
Relative to Selected Foreign Currencies**



SECRET



**SECRET**

**THE SOLZHENITSYN DILEMMA**  
(NO SOURCES)

Aleksandr Solzhenitsyn's latest book, *Gulag Archipelago*, published in a Russian-language edition in Paris on December 28, once again confronts Soviet leaders with a dilemma. They can permit the author of the book, a detailed history of Soviet police terror and the prison system from 1917 to 1956, to go unpunished only at the cost of jeopardizing their efforts to control the production of Soviet writers. They are also aware, however, that such retribution would precipitate reaction abroad that might undermine Moscow's policies of detente.

The impact on detente of the publicity that the book and its author have already received in the West is undoubtedly being closely watched by the Kremlin. Its concern is underscored by Western press speculation that predicts trouble for the third stage of the conference on European security and cooperation in Geneva if Moscow arrests or imprisons Solzhenitsyn.

The depth of the leadership's dilemma was demonstrated by the long delay in its public response to the book. The first criticism of Solzhenitsyn, almost a week after publication of his work, appeared in broadcasts beamed abroad. The Soviet press did not address the subject at home until January 6, and then only by quoting attacks on Solzhenitsyn by foreigners—mostly European communists. No more authoritative statements have been issued to domestic audiences, even though news about the book has been widely disseminated by Western radio broadcasts, and Radio Liberty began broadcasting the entire text on January 5. Soviet commentary has predictably labeled Solzhenitsyn a "slanderer" and "renegade," but has carefully avoided the key issue of the penalties that may be in store for him.

This tardy and so far cautious response may indicate some indecision among the leadership. Whatever decision is reached will have to weigh the regime's internal security interests against its foreign policy goals, and consensus would be difficult. The relatively low key response could also



**Aleksandr Solzhenitsyn**

mean that a decision has already been made not to punish Solzhenitsyn and to play down the case.

One veteran Western correspondent in Moscow cited "usually well-informed Soviet sources" as saying that punitive measures were not likely to be taken against Solzhenitsyn. The "sources" gave as reasons the probability of an international outcry as well as Solzhenitsyn's threat that action against him would result in the publication of still more manuscripts. This view was later backed by a senior Soviet commentator, who told a television audience that Solzhenitsyn would not be given a "pretext" to complain of persecution.

Solzhenitsyn himself apparently believes there is a real possibility that he will be arrested or imprisoned. He said as much to three French visitors a few days after publication of his book.

**SECRET**

19 [During debate this week, Prime Minister Heath said that his government will not surrender to the miners' pay claims. At a meeting this week between Secretary of State for Employment William Whitelaw and the miners' executive, no progress was made in breaking the deadlock. The miners agree with Whitelaw that there is little room left within the Stage 3 guidelines for further negotiation. The miners and the National Coal Board had hoped the government Pay Board would agree to a compromise—payment to the miners for time not actually spent in the pits.]

21 [On January 10, the miners' executive voted to continue the ban on overtime. Some miners have called for more militant action, such as a shorter work week, and there have been localized walkouts. Railway workers also have walked off their jobs. According to press reports, plans for an all-out strike have been drawn up. These union actions, along with fuel shortages, have aggravated Britain's already difficult economic situation. Unemployment has reached about one million, coal production has dropped to 30-40 percent of normal, and the three-day work week is cutting into industrial production.]

21 [The opposition Labor Party has questioned government tactics, particularly the three-day week. The party's principal spokesman thus far has been the leftist shadow minister for trade and industry, Anthony Wedgwood-Benn. Labor Party leader Harold Wilson, well aware that the party has no ready solutions, has kept his criticisms relatively low-key, probably to keep from identifying the party too closely with the unions. Leaders of the Liberal Party, whose political prospects seemed to be improving late last year, have had little to say at all.]

#### UK: IMPASSE DEEPENS

22 [The Tory government has reiterated its determination to stand firm against union pay demands that would violate the guidelines of the counter-inflation program. The unions are equally adamant. The opposition although somewhat critical of government tactics, has no solution that would end the confrontation and ease mounting economic problems.]

20 [Faced with even darker prospects, Heath may decide to call an early election. The cabinet shuffle this week, which moved Lord Carrington from the Ministry of Defense to the newly created Energy Ministry, plus the earlier reassignment of Whitelaw from his Ulster responsibilities to the Employment Ministry, places trusted advisers in key positions, possibly as part of pre-election strategy.]

25X1

SECRET

**Page Denied**

## SPAIN: SWEEPING CABINET CHANGES

26 [The Spanish cabinet underwent an extensive shakeup last week following the assassination of Premier Carrero on December 20. No dramatic policy changes are expected from the new government, however, which is expected to carry out Franco's plans for political and social development. Although the regime is emphasizing the relatively smooth transfer of power, the system will not get a critical test until Franco is gone.]

26 [The new premier, Carlos Arias, has given his own imprint to the new cabinet by bringing in 11 new men and keeping only 8 holdovers. The new ministers appear to have been chosen for their loyalty to Franco and their professional competence, not because they represent any particular faction. Forming a more cohesive group, they will function with less bickering and will arouse fewer animosities than some of their predecessors.]

26 [Arias has a reputation for strict adherence to law and order as well as for efficient administration. Along with a tough interior minister, Arias has chosen a number of moderate, pragmatic individuals to head ministries in the economic and social fields. These appointees are known to be interested in easing the economic and political restraints that have hindered Spain's efforts to develop closer ties with NATO and the European Communities.]

27 [For the first time, the cabinet includes three vice premiers, headed by the interior minister as first deputy. They apparently will form an inner cabinet to assist Arias in handling security and economic matters as well as pressures for popular participation in government. None of the three has a political following of his own, and would not be expected to succeed the 65-year-old Arias on other than a temporary basis.]

27 [Foreign Minister Lopez Rodo, the last remaining member of Opus Dei, the Roman Catholic lay organization whose members dominated earlier cabinets, was not reappointed. Other members of Opus Dei were eliminated from the cabinet last June, a move that reflected general disenchantment with the growing influence of this faction. This cabinet is also the first one since



Carlos Arias Navarro

Franco came to power that does not include a military figure—other than the three service ministers. The military reportedly were reluctant to become associated with the new government because of the difficult problems it faces and prefer to remain above the fray for the time being.]

26 [The government's reaction to the assassination has not led to massive arrests, as some opposition figures had feared. The police have concentrated their efforts on tracking down the six members of the Basque terrorist group known as ETA, who have been accused of the crime.]

28 [In his initial statement at the installation ceremonies, Premier Arias emphasized the positive. He promised to maintain order so that Spaniards can develop their rights and liberties. He also said his government attached great importance to participation by the people in the political process. Although these statements were carefully qualified, they leave the door open to the possibility of some easing of political restrictions.]

25X1

SECRET

SECRET

## EUROPE

### SECURITY TALKS RESUME

32 [The force reduction negotiations and the Conference on Security and Cooperation in Europe resume next week in Vienna and Geneva, respectively. The NATO and Warsaw Pact participants have thus far outlined general positions. In MBFR, difficult bargaining lies ahead to identify specific issues for negotiation. In CSCE, the issues are clear, but major substantive differences remain.]

would be disproportionately strong if US and Soviet troops were reduced first has been increased by recent talk of West European defense cooperation. In their private statements, however, the Soviets have suggested that they might be amenable to reducing US and Soviet forces first, provided there is a firm commitment by the West to reduce national forces in a second phase.]

32 [In Vienna, the Warsaw Pact has submitted a specific draft agreement for discussion, and the NATO allies have spelled out their proposal for MBFR through a series of presentations. The Warsaw Pact is calling for the direct participants in the talks to negotiate one agreement involving a three-phased reduction of forces beginning in 1975. In the first phase, the direct participants would make a symbolic combined reduction of 20,000 men. The remaining forces would then be reduced by 5 percent on each side and then by another 10 percent. Air and ground forces and their equipment, including nuclear weapons, would be cut in each phase.]

32 [The Soviets will continue to argue vigorously against the Western concept of asymmetric reductions. They have used a variety of arguments against asymmetry, but have emphasized that Western inferiority in some areas is compensated by superiority in others, so that an over-all balance exists. Thus, while the NATO countries stressed Warsaw Pact superiority in ground forces and armor, the Pact strove to include air forces and nuclear weapons in a total reduction package. The Soviets have hinted that they might accept a common ceiling in which air and ground forces were included.]

32 [NATO proposes that only US and Soviet ground forces be cut in a first phase and that a second phase of reductions should result in a common ceiling for NATO and the Pact of about 700,000 men. Only ground forces would be cut, and the reductions would be asymmetric, with the Warsaw Pact making larger cuts than NATO.]

31 [The NATO allies still must decide on their tactics for the next round. Some British officials have suggested that the Western side should go slow in the negotiations, and officials in several European states believe the Western side should make no firm commitments to reduce national forces. Recent comments by a West German official suggest that Bonn wants no reduction of its regular armed forces. The allies will probably attempt to focus the negotiations on a possible agreement to reduce only US and Soviet forces. The NATO allies maintained a united front during the first round of talks, but the difficult decisions they must now make might bring existing differences to the surface.]

32 [The Soviets seemed generally pleased by the course of the first round and feel that they scored some tactical successes. For this reason, it is unlikely that they will start the next round with any new proposals or approaches. They will continue to pursue themes that were stressed during the opening round and in commentary since then.]

32 [In Geneva, the representatives of 35 European states must resolve major substantive differences. Moscow's goals for the conference are to obtain a multilateral ratification of post-war borders in Europe and to institutionalize its continuing voice in European affairs through the adoption of some sort of post-conference machinery. The Western states hope to gain recognition

32 [Moscow and its allies will continue to place particular emphasis on including both foreign and national forces in all stages of reductions. The USSR's initial concern that West German forces

SECRET

for the possibility of peaceful changes of borders and to obtain freer communication between East and West.]

30 [The Soviets have recently hinted that they might be willing to compromise on the latter issue, but it is by no means certain that Moscow will actually offer concessions that will satisfy the Western side. Resolving differences on this topic and other contentious issues such as so-called "confidence building measures"—steps to limit certain military activities—will probably take several months.]

#### LOOKING FOR A NEW SOURCE OF ENERGY

41 [The sharp rise in petroleum prices is stimulating the interest of West European countries in establishing an independent capacity for enriching uranium to meet future energy needs. The situation is confused by the claims of rival projects and by varying degrees of interest in securing US participation. Moreover, the politically powerful power companies, primarily interested in assuring adequate supplies at "reasonable" prices, do not necessarily share government views that are often influenced by questions of prestige.]

41 [France's partners in Eurodif, the projected \$16-billion gaseous diffusion plant for enriching uranium, are beginning to respond to the French announcement last November that Paris would proceed on its own, if need be, with construction of the facility. Rome has agreed to contribute 22.5 percent of the cost of the project, Belgium appears close to a commitment of 10 percent, and Spain is likely to go along for another 10 percent. Sweden is the most reluctant of the partners and reportedly will not decide until mid-June whether or not to participate. Sweden's projected share of 10 percent, if taken over by the French, would give France a majority, an eventuality the others hope to avoid. Press reports now indicate that Saudi Arabia is also interested; it might seek Sweden's share. The choice of a site has narrowed to France or Italy and will be decided this month.]

38 [The possibility of collaboration between Eurodif and the US Atomic Energy Commission

37 has aroused controversy. The French bureaucracy is divided, with the national electric utility in favor of obtaining US technology, while the atomic energy authority has assumed a go-it-alone attitude; the other Eurodif members would like to explore the question. A recently formed group that includes, as members or associates, all the electric power companies of France, Italy, Belgium, Netherlands, Spain, Switzerland, and Austria is pressing for US-European cooperation. The leaders plan to meet on January 14, and also hope to hold talks with Eurodif and US officials. They believe Eurodif is now showing considerable flexibility and may agree to cooperate with the US.]

36 [The other major European uranium enrichment project, Urenco, which depends on the less expensive but unproved centrifuge process, is also moving ahead. Urenco has attracted support because it requires only one tenth the power called for by the diffusion process. The three backers—West Germany, Britain, and the Netherlands—hope to complete an initial study phase in mid-1974. The West Germans are hopeful that during a second phase later this year the new US initiatives for cooperation in energy research and development may bring help to Urenco on centrifuge technology.]

40 [In Canada, meanwhile, industry is exploring the possibility of constructing and operating a gaseous diffusion plant based on US technology, with Ottawa clearing the way but supplying no funds. The Canadian company made arrangements with the US Atomic Energy Commission last year to undertake a two-year feasibility study. The Canadian venture has the support of four German and two Japanese firms, who back the gaseous diffusion approach in Canada because the availability of cheap power there makes the project more feasible than Eurodif. The French are reported to be sparing no effort to persuade the Europeans to pull out, but Bonn has encouraged participation by German industry, even to the point of paying the German consortium's costs in the study.]

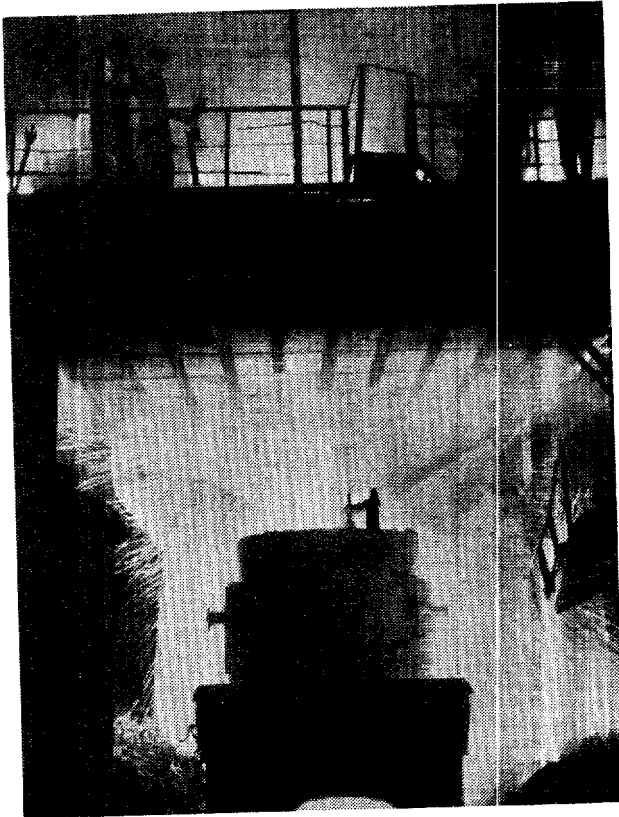
25X1

SECRET

**SECRET****CHINA****SPENDING SPREE**

(42)  
China bought whole industrial plants at a record level in 1973 from Japan, Western Europe, and the US. Contracts jumped from less than \$60 million in 1972 to more than \$1.1 billion last year. The 1973 total alone was almost four times the value of plants purchased during the previous decade. Negotiations now under way could add another \$1 billion in 1974. When equipment from plant purchases starts flowing into China in 1974-76, whole-plant imports could account for as much as one half of total imports of machinery and equipment.

Unlike the 1960s, when purchases centered on filling technological gaps and acquiring small prototype plants to copy, the Chinese today are buying huge industrial complexes that add substantial new capacity to lagging industrial sectors.



Top priority is going to the petrochemical industry for plants producing fertilizer and man-made fibers. An increasing volume of these products is needed to help feed and clothe China's growing population. After the imported plants go into production in the mid-1970s, the added output could greatly expand domestic availability or replace a portion of China's large annual imports of fertilizer and fibers.

China is spreading its business around when choosing suppliers. It learned from earlier experience with the USSR the dangers of heavy dependence on a single country. With the broadening of US-Chinese relations in the past two years, Peking has taken the opportunity to further diversify its sources of supply. The value of whole-plant contracts signed in 1973 was divided among Japan (39 percent), France (34 percent), the US (18 percent), and other West European countries (9 percent).

China has reverted to its pre-Cultural Revolution practice and now is using medium-term deferred payments to finance about two thirds of the value of the plants purchased. The contracts call for the bulk of the payments for principal and interest to begin after all equipment for a plant has been delivered. Because the Chinese have been essentially free of foreign indebtedness for almost a decade, debt-service obligations under whole-plant contracts should be readily manageable.]

**MIXED ECONOMIC PICTURE**

(NO SOURCES)

Amid rumblings of high-level policy debates, Peking has reported a good but not spectacular economic performance last year. The claims, mostly qualified, indicate a moderate comeback in agriculture, continuing problems in various sectors of industry and construction, and a sharp rise in foreign trade. Other evidence confirms that the economy has recovered from the slowdown of 1972, although not as strongly as Peking had hoped.

Peking's only specific over-all claim so far is that the gross value of agricultural and industrial production increased by 8 percent. This compares

**SECRET**

SECRET

with a 10-percent increase claimed for 1971 and no claim at all for 1972.

The agricultural sector improved over 1972, when poor weather damaged grain and cotton crops. *People's Daily* reported record outputs of grain, cotton, hemp, sugar, and tobacco. Grain was said to have surpassed the record 246 million tons claimed for 1971, and cotton production reportedly rose by 20 percent. Increased output from fall-harvested crops apparently more than offset the disappointing early harvest that—as in 1972—was plagued by drought in the north and flooding in the south.

No output figures were cited for industrial production, but it was said to have risen by “a big margin,” bland rhetoric by Peking's standards. Conspicuously absent from a list of products whose production was claimed to have met or surpassed plan targets were iron ore, pig iron, coal, cement, and mining machinery—bottleneck items that had received high priority in 1973. The most important regional claims so far are for Shanghai, Tientsin, and Liaoning where gross output reportedly rose by 8 to 10 percent, respectively, compared with 1972. Fragmentary evidence suggests that over-all industrial production increased at a comparable rate, or roughly the same as in 1972.

Peking also asserted that foreign trade rose “significantly” last year. Partial returns from China's trading partners indicate that total trade jumped from \$5.8 billion in 1972 to more than \$8 billion in 1973. Peking chose to ignore the fact that imports—led by sharply increased purchases of grain and cotton—outtran exports, resulting in a deficit with hard-currency countries of roughly \$500 million.

#### INCREASED AID TO AFRICA

Peking maintained a high level of economic aid activity in Africa last year, concentrating on West Africa. The military aid program continued at a more modest pace.

Chinese economic credits to Africa reached \$330 million, up 60 percent over 1972, but about

equal to the average Chinese aid extended during the 1970-72 period. Africa, in fact, accounted for almost all Chinese aid undertakings in 1973, reaching 90 percent last year compared with 60 percent in 1970-1972. As in the past, most of the aid was allocated to the development of agriculture, transportation facilities, and light industry.

China followed up its improved political relations with West Africa during the year by shipping 35,000 tons of grain to the six drought-stricken countries of the Sahel. Two thirds of China's aid to Africa went to Cameroon, Chad, Senegal, and Upper Volta, China's first economic development credits to these countries. This contrasts sharply with the 1970-1972 period when Chinese attention was concentrated in south and east Africa and less than 20 percent of new Chinese credits were extended to West African nations.

China provided about \$110 million of new assistance to other African countries last year. A \$100-million credit was made to Zaire for agricultural and medical projects; gifts were made to Zambia for road improvements and to Tanzania for a pharmaceutical plant.

In East Africa, Peking completed the Tanzanian portion of the Tan-Zam Railway. Construction also is in progress on several other projects in Tanzania as well as on the island of Zanzibar. In Somalia, Chinese construction activity on the \$60-million Belet Uen - Burao road was stepped up. Work on Peking's major project in Sudan, the Wad Medani - Gedaref road, also has been accelerated, and progress is reported on several other Sudanese facilities under construction by the Chinese.

Only \$9 million in new military aid was committed last year, compared with \$11 million in 1972. About \$6 million of last year's aid went to Tanzania, China's largest military aid recipient in Africa.

25X1  
25X1

SECRET



SECRET

## INDONESIA: STUDENT XENOPHOBIA

43 Indonesia's revitalized student activists see the visit next week by Japanese Prime Minister Tanaka as an ideal opportunity for large-scale protests. Originally confined to the two national university centers of Jakarta and Bandung, student protests have now spread to provincial university towns. Over the past months, student groups have mounted a series of small but well-publicized visits to various government departments requesting "dialogues" on economic and social policies. In an effort to ease the situation, 45 President Suharto has agreed to meet with a student delegation today to discuss development programs and listen to their critiques of foreign investment policies.]

46 Tanaka's visit is viewed by the students as an opportune time to arouse public sentiment against the shortcomings of government policy by focusing attention on alleged Japanese dominance and exploitation of Indonesia's economy. 43 Bandung students have already challenged Tanaka to discuss these issues with them. This type of student activity is a hot potato for the Japanese Embassy, which is acutely aware of Indonesian criticism but uncertain how to handle it. In the wake of mild anti-Japanese protests last week, some prominent neon signs advertising Japanese products have been turned off despite the reluctance of the merchants involved.]

45 The Indonesian Government cannot take much comfort in the fact that the students appear to be focusing on a foreign target. Anti-Japanese sentiment also provides a launching pad for a general attack on government coziness with foreign investors, which the students allege is stifling indigenous business enterprise. The propensity of Japanese businessmen for dealing with local Chinese rather than with Indonesians is cited as proof of the students' argument. Taking the issue a step further, the students charge that these Japanese-Chinese business cabals provide the money that allows Jakarta's military elite to live in opulence while other Indonesians must struggle for existence.]

46 The Suharto government is trying to strike a conciliatory stance, seeking to avoid an outright confrontation with the students that would give them a cause celebre. Indonesian security officials are also keeping an eye on how Tanaka fares elsewhere; the Jakarta press has been giving broad coverage to anti-Japanese protests by Thai students. Small protests in Jakarta would strengthen Suharto's hand in negotiating more favorable deals with Tokyo, but the government fears widespread demonstrations that would be embarrassing. [redacted]

25X1

## JAPAN: OIL AND THE MILITARY

47 Tokyo has ordered its armed forces to make large cuts in petroleum consumption because of the serious domestic fuel shortage. Currently, the military accounts for less than half of one percent of Japan's annual oil consumption, but the cutbacks could result in a significant reduction of the combat readiness and operational capability of Japan's Self-Defense Force.]

47 A government spokesman stated that, while other countries have given their military top priority in the allocation of petroleum products, the political and social situation in Japan dictates that its armed forces be included in cutbacks. The statement reflects the military's lack of priority in national planning, a condition that has existed since the Self-Defense Force was formed.]

47 The government generally is permitting the armed forces to work out the details of the fuel conservation effort, which will not be made public for security reasons. It has asked the air force to reduce training flights, however, and to keep to a minimum the number of interceptors scrambled when unidentified aircraft approach Japanese airspace. The air force apparently is considering a reduction in flying time of about 15 percent.]

SECRET

SECRET

47 The Self-Defense Force is already having difficulty getting enough oil to fill its requirement of 4 million barrels for this fiscal year, which ends in March. Military spokesmen report that more than one third of their oil requirement has yet to be procured. Firms that normally supply oil to the force reportedly have declined to submit bids for deliveries through the remainder of the fiscal year. The shortage is compounded by the fact that the force has only about 25 percent of its normal yearly consumption in reserve.

48 As a result, the military may have to resort to expensive short-term oil purchases to meet some requirements. This option, however, is limited both by budgetary restrictions and by the fact that certain oil products are not available in the market. Thus, the military probably will have to dip into its fuel reserves as well as greatly reduce its rate of consumption.

## KOREA

### A Hard Line in the South

53 The government moved closer to a serious political confrontation with its domestic critics this week as President Pak set aside his efforts to mollify dissident groups and moved toward harsh measures. Deeply concerned with snowballing demands for constitutional reform and political change, which would weaken his authority, Pak issued two emergency decrees making further protest and criticism of his regime punishable by court-martial and imprisonment.

52 His moves—the first direct actions to curb three months of persistent unrest—were aimed at prominent civilians circulating a well-publicized reform petition and at senior politicians who have recently spoken out against the President's authoritarian policies. The ramifications of Pak's moves are broad, marking a return to the police-state controls used in 1971 and 1972 to repress similar opposition. The moves also reflect Pak's judgment that recent efforts to appease his

critics—such as the downgrading of South Korea's Central Intelligence Agency and the reorganization of the cabinet—only whetted the opposition's desire for more far-reaching changes, including perhaps his own resignation.

54 In adopting these new measures, Pak is gambling that the threat of government repression will again be sufficient to silence his critics. He means to shatter the protest movement before universities reopen in the spring and provide a potentially explosive base for his opponents. Pak clearly intends to follow through with his threats, but he is not insensitive to the need for some restraint. There are indications, for example, that behind-the-scene efforts to buy off some critics will continue. He also intends to rely primarily on the national police to enforce the new measures, keeping the army in the background to limit the possibility of bloodshed. But he has also apparently found it necessary to revive the power of The feared CIA internal security apparatus to some extent.

54 It is too early to judge the reaction to Pak's moves. Most politicians will probably find it prudent to hold their peace and await further action by the more militant Christians, students, and intellectuals. In a cautious gesture, the opposition New Democratic Party has called—unsuccessfully—for a special meeting of the National Assembly. Tougher critics, however, may view the President's moves as a challenge that cannot go unanswered; they run grave personal risk if they do.

### Pyongyang's Response

54 Seoul's action may be interpreted by North Korea as evidence that the South is approaching serious political instability. The situation has already provided the North with additional reasons for rejecting Seoul's latest overtures for a resumption of the North-South dialogue. The North Koreans recognize that forward movement in the negotiations at this time could ease Seoul's current domestic troubles and are claiming that the emergency measures damage the prospect for resuming the dialogue.

25X1

25X1

SECRET

## Cambodia

### MORE PRESSURE ON PHNOM PENH

55 + 56  
Ground action flared in the Phnom Penh area this week as the Khmer Communists launched a major drive against the capital's north-western defenses. The insurgents' initial momentum carried them to within three miles of Phnom Penh's airport before Cambodian Army units began to counterattack. With government troops concentrating on the airport's defense, small Communist elements started moving against government units along Route 5 near a major oil storage facility five miles north of the capital. At week's end, two of the army's four infantry divisions were counterattacking in the northwestern sector, but the Communists were still within easy rocket range of the capital.

The insurgents also remain in position to shell Phnom Penh from the Mekong's east bank, where government troops are still pinned down in riverside villages. Recent rocket attacks on the city have caused little damage. The attacks are likely to remain sporadic since sustained firings would leave insurgent crews vulnerable to government air strikes and counter-artillery.

In the countryside, government troops on January 6 reopened Route 4—Phnom Penh's overland link to the seaport of Kompong Som—by breaking through light Communist resistance just southwest of Kompong Speu City. The highway had been interdicted for almost two months, and nearly 15,000 tons of rice destined for Phnom Penh have piled up at Kompong Som. Truck convoys began using the road again on January 10.

### LAOS: MUCH ADO ABOUT NOTHING

59  
Nearly four months have elapsed since the protocol to implement the February 1973 peace agreement was signed, but a new coalition government is still nowhere in sight. The protracted

delay has resulted in a growing sense of frustration and uneasiness on both sides. This has, in turn, given rise to a new spate of coup rumors, but there is no hard evidence that any serious plotting is under way.

60  
The Communists, in particular, are apprehensive about some sort of power play by disgruntled conservatives. Radio Pathet Lao has been weighing in with charges that "Vientiane ultrarightists," in collusion with "Thai and South Vietnamese reactionaries," are scheming to sabotage the cease-fire and negotiations on a new government.

59  
Pathet Lao elements in Luang Prabang also have a bad case of the jitters. They have charged, apparently with some justification, that government forces have been harassing and encircling their bivouac areas in and around the royal capital.

63  
Prime Minister Souvanna, who has mounted a personal crusade for a rapid and smooth formation of a new coalition government, is also keeping a close eye on developments. He put government forces in Vientiane on alert late last month, following reports that the rightist Sananikone clan was bent on serious trouble-making, but he seems to have calmed down recently as a result of the rightists' reassurances that their hands were clean.

63  
Nevertheless, Souvanna may still encounter considerable difficulty within his own ranks in reaching agreement on a new government. The rightists remain highly apprehensive over the influx of Pathet Lao security forces into Vientiane and Luang Prabang, and they are again voicing serious concern that Souvanna may be prepared to sell out rightist political and economic interests to gain Lao Communist agreement on a new government. Vientiane rightist spokesman Ngon Sananikone recently discussed the possibility of forming a new alliance among the major conservative elements in Laos as a safeguard against such a move by Souvanna.

SECRET

SECRET

## ZAIRE: DECOLONIZING THE ECONOMY

87 If President Mobutu Sese Seko has his way, 1974 will be the year of economic independence for Zaire. He recently ordered a series of moves aimed primarily at the Belgians, who still have a large stake in Zaire's economy, but others will be affected also.

83 Mobutu contends that the Belgians have resisted "Zairianization" while other foreign investors—mainly US, Japanese, and British—accepted his new policies long ago. In late November, he again sounded the theme of economic independence in a major policy statement that accompanied a number of sweeping measures to reduce foreign involvement in his country's economy. Henceforth, the government will:

- demand 50 percent participation in all future mining concessions granted to foreign investors;
- establish monopolies in import-export, timber exploitation, insurance, and construction;
- require, effective next year, all companies that will have been in Zaire for five years to turn over their top management positions to Zairians.

87 In addition, Mobutu declared that all foreign-owned, non-industrial enterprises—such as plantations, ranches, and farms, most of which are owned by Belgians—are to be turned over to private Zairian owners, who will reimburse the present owners. The government also has forbidden Portuguese and Asians to reside in certain areas of the country and has ordered them to prepare their property for sale to Zairians. This action will be especially popular, as Zairians resent Asian domination of trade in the interior.

84 In related moves, the government subsequently expelled the Belgian advisers to the Bank of Zaire and informed Brussels that it wishes to buy out the Belgian-owned Commercial Bank of Zaire. It also nationalized, promising compensation, all foreign-owned petroleum storage and distribution facilities. This move affects Texaco, Shell, Mobil, and the Italian firm, Petrofina. Gulf,

which is heavily engaged in exploration and production, has been exempted.

87 It will be some time before the government works out a viable mechanism for indemnification and an orderly take-over. A period of public confusion, petty corruption, and economic dislocation has already set in and is likely to last for a while. Mobutu is determined to make the new measures work, however. If he succeeds, he may turn to other sensitive economic issues, notably the repatriation of profits by Belgian technicians and managers who work in Zaire under lucrative government contracts.

25X1

## Afghanistan-USSR ARMOR FROM MOSCOW

89, 90 Kabul is getting new armor from the USSR to modernize its army. During the past year, at least 140 pieces of Soviet armored equipment, including 85 tanks, were delivered to Afghanistan. Most of this equipment was received after the coup in July, but there is no evidence to indicate whether these deliveries were arranged prior to the coup, whether they were accelerated at the request of the new government, or whether they represent new assistance granted since July.

25X1

88, 89 Reports received late last fall of large Soviet tank deliveries to Afghanistan appear to have been exaggerated.

90 Afghan inventory stands at only 560. This figure is close to US estimates of 570 tanks.

25X1 25X1

89 The numbers and types of equipment delivered thus far suggest that the Soviets intend to improve Afghan military capabilities qualitatively rather than quantitatively. The military can use new tanks because about 200 of its tanks are obsolete T-34 medium tanks, at least a quarter of which probably are inoperable.

25X1

SECRET

SECRET

## CANADA: SELLING WHEAT

(65-67)  
Canada is back in the world market, having held out for higher prices since September. After shifting orders to US markets in November because Canada's prices were too high, buyers turned back to Canada in December for large purchases as US stocks dwindled and world prices rose. Japan, the UK, Switzerland, Egypt and the Netherlands recently agreed to purchase a million and a half tons of wheat at Canada's November offering price of \$5.77 a bushel, almost \$.80 a bushel above comparable grades in November but consistent with December's market prices. Algeria had turned down a Canadian offer for Durham wheat at \$8.84 a bushel in November when the world price was \$7, but reversed its decision and bought from Canada in early December at \$9.21 a bushel when the world price was about \$9.25 a bushel.

Canada's strong influence over price in the current market stems from abnormally low stocks held by the US and other competitors and from a centralized government agency that controls prices for some 15 million tons of available wheat—about 20 percent of the wheat normally traded on world markets.

Canada's strategy of holding out for higher prices and longer-term contracts became apparent in late August when the Canadian Wheat Board set its offering price about \$.80 a bushel above comparable US prices—four times the normal difference. In early October, members of the Wheat Board predicted there would be shortages and export controls in the US and rising prices by spring. Their negotiators encouraged buyers to make long-term contracts:

- to avoid disruptions from the predicted US embargo on wheat exports;
- to assure future supplies from Canadian stocks as the government plans for an allocation system to exclude speculators.

Some countries refused the Canadian offers in favor of cheaper US wheat, but Brazil and Poland

allegedly paid the premium prices for Canadian wheat.

Canada would have to export 15.1 million tons of wheat if it fulfills an August agreement with the US to draw down stocks by 2.7 million tons. So far the Canadians have apparently committed some 10-12 million tons for sale during the current crop year, leaving 3-5 million tons still to be sold under the August agreement. This would still leave Canada with stocks of 7.3 million tons—well above projected US stocks of 5.8 million tons. Selling the 3-5 million tons at December prices instead of October or November prices should net Canada an additional \$60-90 million in foreign exchange as a return on holding out for higher prices.

While the Canadian strategy seems destined for success in view of dwindling stocks and continued world demand for wheat, rail strikes and shortages of bunker oil for carrier ships have delayed shipping schedules. Although Canadian railroads are planning to recall some cars on loan to the US and to refurbish 2,500 idle cars, Canada may experience considerable difficulty in shipping out more than 14-14.5 million tons.

25X1  
25X1

SECRET

SECRET

## ARGENTINA: DEFIANT UNIVERSITY

70 President Peron has so far stayed aloof from a potentially serious dispute between the national university and the Education Ministry, involving the refusal of the new university rector to abide by a ministry order. Early in December, Education Minister Jorge Taiana ordered the dismissal of two leftist Peronist professors who had published articles attacking some of Peron's closest advisers. The rector, whom Peron had appointed to replace a leftist named by predecessor Hector Campora, has sided with the professors. He contends that a recently enacted law allowing the firing of civil servants for opposing the government does not apply to Peronists.

70 Problems with the universities are not new to Argentina. Following Campora's inauguration last May, Peronist-appointed interventors, most of them political leftists, overturned curricula and fired many university faculty members for being anti-Peronist reactionaries or under foreign—primarily US—intellectual influences. Similar purges have occurred before. When Peron became president in 1946, for example, there were wholesale dismissals of professors. Twenty years later, military president Ongania occupied the universities, prompting approximately 15 percent of the faculty of the University of Buenos Aires to resign and many to leave the country.

69 In addition to the recurrent politicization of scholarly activities, Argentine universities are overcrowded and short of funds. Although the student population has been growing at the rate of 15,000 a year, government assistance is likely to decrease. Minister Taiana has said that priority will be given to primary and secondary education. As a result, the quality of university instruction is not likely to improve.

78 Leftist professors may continue to exercise a predominant influence over educational policy, even if Taiana decides to push his case against the rector, and Peron will characteristically remain aloof. While Peron will probably manage to weed out some of the more extremist professors, a major campaign against Marxists in the educational system would completely alienate his increasingly disillusioned student supporters at a time when he has his hands full with terrorism.

## ARMS RACE IN THE ANDES

(91-76)  
The arrival of Soviet tanks in neighboring Peru has increased the determination of the military rulers in Chile and Ecuador to modernize and expand their armed forces. Chile reportedly is considering countering the Peruvian acquisition with new French tanks and anti-tank weapons. Ecuadorean officers are reported to be calling for a major re-equipment program, and decisions on arms purchases are likely soon.

Border disputes resulting from past wars, desire for revenge, and jealousy over natural resources still color relations among the Andean states.

The centenary in 1979 of the War of the Pacific, in which Chile defeated Peru, already is heightening apprehension in Chile of Peruvian revanchism. Chileans are well aware that Peru's military doctrine calls for national honor to be redeemed before the passing of a century by recovery of lost southern provinces. Chilean military men, who view the ouster of Allende as ending a period of national decline, fear that Peru could decide to strike a long-planned blow before Chile can recover and rearm. Chilean officers also see Peru as the potential center of subversion inspired by Moscow—and Havana—against their stridently anti-Communist regime.

Ecuador, for its part, has never reconciled itself to the loss of its Amazonian territories to Peru in 1941. It fears that Peru now covets even more territory in the oil-rich *oriente* (east).

In Peruvian eyes, both Chile and Ecuador are potential aggressors. Copper mines in the south and oil in the northeast are seen as temptations for Chilean expansionists and Ecuadorean revanchism. Following the drastic change in Chile's political orientation last September, Peru's military leaders began to perceive of their nation as a beleaguered "revolutionary" outpost bordered by unsympathetic regimes subject to the "imperialist" influences of the US and Brazil. Peru and Chile both believe that the other might try to mitigate its internal difficulties by focusing domestic attention on a foreign enemy.

To a disinterested third party, the old disputes and persistent suspicions that pervade the

SECRET

SECRET

Andes have an air of unreality. But to the military men involved, the mutual animosities, fears, and suspicions are deeply felt. An arms race may

develop in earnest and—to the participants, at least—armed conflict is far from unthinkable.

25X1

♦ ♦ ♦

SECRET

**Page Denied**



**Secret**

**Secret**